# ANNUAL REPORT
# 2003-2004

# PRINCE EDWARD ISLAND BUSINESS DEVELOPMENT INC.

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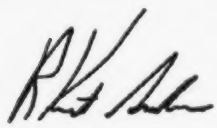
## Message from the Chief Executive Officer

Honourable Mike Currie
Minister of Development and Technology
P.O. Box 2000
Charlottetown, PE
C1A 7N8

Dear Minister:

I respectfully submit the Annual Report for Prince Edward Island Business Development Inc. for the fiscal year ending March 31, 2004.

Sincerely,



R. Kent Scales
Chief Executive Officer

## Mandate

Prince Edward Island Business Development (PEIBD) leads the business development effort for the province. Its role is central and critical to government's overall objective of advancing sound business development initiatives.

Prince Edward Island Business Development provides leadership in the implementation and support of economic development and assists in the establishment and maintenance of profitable and wealth-creating businesses in Prince Edward Island. The corporation solicits and supports investment, creating jobs and wealth for Prince Edward Island; actively supports small business; encourages entrepreneurship and investment risk sharing; and actively promotes PEI as a competitive place to do business.

Prince Edward Island Business Development has one of the lead roles in attracting new businesses and prospective business partners to the Province. As well, the corporation directs the trade development and export initiatives of the province.

## Board of Directors

*as of March 31, 2004*

Honourable Michael Currie, Chair
Paul Jelley, Co-Chair
Michael O'Brien
James Johnston
DenisGallant
Tom DeBlois

### Staffing Summary

| | |
|---|---|
| Corporate Management | 3 |
| Client Services | 10 |
| Corporate Services | 4 |
| Marketing | 4 |
| New Business Development | 5 |
| Trade Development | 5 |
| Finance & Administration | 13 |
| Asset Management | 5 |
| **Total** | 49 |

## ASSET MANAGEMENT DIVISION

Doug McNeil, General Manager

The Asset Management Division is responsible for the efficient administration and strategic development of real property investment assets owned or controlled by Prince Edward Island Business Development Inc. (PEIBDI) in addition to providing a technical service to the Ministry of Development and Technology. The property portfolio includes mature business parks at West Royalty, Summerside, Bloomfield and Pools Corner, the Food Park in Souris and Gateway Village.

### Gateway Village Development Inc. (GVDI)

GVDI plays a role as a developer, landlord and retailer. Private developers have invested in Gateway Village and include: Boat House; Cavendish Figurines Ltd.; Cows; Gateway Petroleum; Prince Edward Island Emporium (The); and Subway.

GVDI owns and operates Gateway Centre, a 20,000 $ft^2$ complex plus the Shops of Gateway a 10,000 $ft^2$ shopping mall. These complexes offer space for a museum; exhibits; visitor information; retail and administrative offices.

Excluding privately owned properties, GVDI is responsible for all ground maintenance (summer and winter); street lights; park and building maintenance; cleaning; and administrative services on a year-round basis.

GVDI owns and operates The Official Island Store™ a 1500 $ft^2$ retail store which operates seasonally. GVDI is responsib3le for all aspects of this operation including staffing, product purchases and development.

### Environmental Industrial Services Inc. (EISI)

EISI owns and operates water and/or wastewater utilities in Bloomfield, Alberton, Northport, Georgetown, Crowbush Resort and Brudenell Resort. Most of the operational costs are billed to the users.

EISI also owns wastewater treatment plants at several privately run operations including: Agrawest, Souris; McCain's, Borden-Carleton; Cavendish, New Annan; Humpty Dumpty, Slemon Park. These private sector companies operate and maintain these treatment plants at their own cost.

A new $4.5 million water and wastewater treatment facility is under construction in Albany for the Atlantic Beef Producers' new beef processing plant at this time. This will be complete with EISI operations to begin in December 2004.

### Technical Services to the Ministry

Assorted technical services are provided to the Department of Development & Technology. These include: cost estimation and review, assistance in preparation of applications to government departments, assistance in obtaining quotations from consultants and contractors, general project management assistance, review of reports and proposals, coordination with other government departments, and troubleshooting.

These services are provided to various development projects.

Project management of large scale construction projects is also provided. For example: construction of the Atlantic Technology Centre and the Albany beef plant water and wastewater facility.

■

## CLIENT SERVICES DIVISION

**Brian Keefe, Director**

Client Services is responsible for the coordination and delivery of information and assistance to new and existing businesses in Prince Edward Island (PEI). Specifically, the group provides counseling, financial assistance, business guidance, entrepreneur education and management development to assist businesses with start up, expansion and diversification of business that supports the long term viability of Island companies. Small business counseling, our most significant service, is available in seven locations across PEI through Access PEI Centres, the Canada/PEI Business Service Centre and at PEI Business Development Inc.'s (PEIBDI) main office.

The Division actively supports small business and encourages entrepreneurship through cost shared financial assistance for capital acquisitions, market development, loan guarantees, leasing. technology, training and innovation. Presently the Division delivers 13 different incentive programs targeted at a variety of industry sectors. Over 420 projects were assisted by Client Services Division staff during this fiscal year.

### Partnering to Grow Local Businesses

In order to maximize our investment into growing and expanding the PEI economy, PEIBD has developed many strategic alliances with the business community and other economic development organizations including:

**Profit Learn PEI**.

This past year, PEIBD has strategically increased its emphasis on investing resources in management skills development training for small and medium sized businesses. PEIBD in partnership with the Centre for Life Long Learning and other funding partners introduced a new

initiative - **Profit Learn PEI**. Forty-five training sessions were held across PEI allowing 453 participants from small business to develop the skills necessary to compete in a consumer driven global market.

**Performance Plus**

Client Services introduced a new pilot program in partnership with the Canadian Manufacturers and Exporters Association and other funding partners to assist small business operators who are growing, adding staff, or constructing additional manufacturing facilities, while increasing their client base and sales volume. The program helped company owners to increase their business skills and their management capacity.

Thirteen companies have received 175 hours of coaching and training to develop and implement the four modules and an additional 24 hours of follow up support to ensure sustainability over the longer term.

**Entrepreneur Loan Program**

This program is a partnership between PEIBD and Island financial institutions. The program continues to provide valuable access to small business financing through loan guarantees to the private lending institutions and a 100% rebate on the first year's interest on the loan. Since the program's inception, 727 loans totaling $12,243,981 have been guaranteed. This past year, 30 companies were assisted with PEIBD guaranteeing $865,000. Through this program, 60 jobs were created this past year, bringing an estimated program total of 1250 jobs.

**Craft Industry**

The Island Craft and Giftware Industry provides income for over 500 micro businesses. Client services, in addition to providing dedicated staff, invested over $600,000 in this sector. Several key initiatives included: coordinating the annual Buyer's Market; marketing and trade mission initiatives to regional, national and international venues; developing a Craft Directory; financial support to the PEI Crafts Council; developing a Craft Development and Marketing program for producers and managing the Anne of Green Gables Licensing Authority. The Winter Financing Program also provided producers with financing to be able to manufacture more product during the off-season. This past year, 21 applications were approved totaling $166,173 .

**Self Employment Benefit Program**

The Division also delivers a Self Employment- Employment Benefit Program (SEEB) under a partnership contract with Human Resources Development Canada. This program assists EI eligible participants learn how to develop a new business. Last year, 30 new businesses were created under this program.

**Community Development Corporations**

PEIBD partnered with the Central Development Corporation to establish a small business incubator facility in Kensington to encourage small business growth in this rural town. PEIBD assisted Borden-Carleton Holdings to provide industrial water infrastructure to local businesses. Resources West, with assistance from PEIBD, provided a comprehensive marketing course for small business in that region.

## Highlights include:

- **Abrasive Enterprises Inc**. a Summerside based manufacturer/converter of abrasive products expanded its operation to service its growing US export market. The company has more than doubled its workforce from 24 employees to a planned 53 in the last year.
- **Cabinet Master Architectural Ltd.** a Charlottetown based wood products company has grown an existing company employing 10 people to a present employment of 43. This excellent growth is driven by the company's ability to compete in the lucrative New England market. Eighty percent of the company's revenues are exports.
- **Norseboat Inc.** is an example of the direction many Island boat builders are pursuing - that of the pleasure craft market. Norseboat Inc. is a Kings County manufacturer of a 17 foot sailboat with markets along the Eastern Seaboard as far as the Florida coast. Initially six jobs have been created.
- **Prestige Kitchens Ltd.** is a well established cabinet manufacturer that identified a market for custom cabinets in Eastern Canada, Eastern/Southern US, and Japan. As a result of investing in the latest manufacturing technology the company has increased its labour force from eight to 24.

■

# CORPORATE SERVICES DIVISION

**Neil Stewart, Director**

The Corporate Services Division (CSD) manages Prince Edward Island Business Development Inc.'s (PEIBDI) **loan, loan guarantee and equity investment portfolios**. In 2003, CSD expanded its role by assuming the management of Island Investment Development Inc. (IIDI), which invests federal immigrant funds into projects of significant economic benefit to the Province.

CSD's provides **financing, makes strategic investments, and provides loan guarantees** in support of Prince Edward Island (PEI) businesses in order to **create, maintain or expand business activity** that will result in significant **wealth and job creation** for the Province. Lending and investment activities are focussed on manufacturers, processors and service providers in PEIBD priority development sectors, with emphasis on businesses involved in

**exporting, import replacement and value-added processing.**

In March 31, 2004, CSD's portfolio grew to over $76 million, with the majority of growth attributed to an **expanding loan portfolio**. CSD also manages the **IIDI** loan portfolio which now totals $39 million.

As a developmental lender, CSD accepts **higher risk** than conventional lenders and utilizes a non-formula approach to lending to **maximize development opportunities**, while balancing financial risk with the **economic return** to the Province. CSD provides **customized financial solutions**, using a combination of financial instruments, including **debt, equity, guarantees and repayable contributions,** to meet the client's specific financing needs.

By forming **partnerships** with conventional lenders and other business development organizations, CSD can assist to **leverage the amount of financing** available for our clients. Also, as part of its non-conventional approach to lending, CSD can act as an **intermediary**, assisting Island businesses to **negotiate** complete financial packages with other lenders and government agencies.

### Highlights include:

- CSD assisted a **large manufacturing client** diversify its product line by providing term financing towards a major plant expansion in rural PEI, involving a building expansion and the purchase of new plant equipment. CSD's participation assisted the company to undertake the project in PEI, which will create an additional 80 full-time positions.
- In the absence of conventional inventory financing for a newly established specialized manufacturing **business in West Prince**, CSD provided the company with a revolving line of credit to finance its finished equipment inventory, which improved cashflow required to take on new orders. The company now employs 14 and exports products to customers in Atlantic Canada, Ontario, Quebec, Australia, and Russia.
- CSD, through IIDI., assisted **a major aerospace client** to establish a production facility at Slemon Park to undertake contracts awarded by the U.S. military utilizing patented technology. CSD provided term financing towards the purchase of new specialized equipment as part of the financing project. The company expects to employ 116 employees within five years of operation.

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## MARKETING DIVISION

**Brad Mix, Director**

The role of the Marketing Division is to provide marketing support to Prince Edward Island based business and to each division within Prince Edward Island Business Development. The Division successfully executed several initiatives over the past year from providing marketing

direction for small business to the development of promotional activities for Island based companies in new Canadian markets.

### New Product Development in the Food Sector

In conjunction with the Culinary Institute of Canada and the PEI Food Technology Centre, the Marketing Division has assisted six PEI food processors to develop value-added food products for retail sales distribution. Focusing primarily on seafood products, the initiative has generated product listings in Wal-Mart Canada with additional product presentations to Loblaws and Sobeys. The Development of value-added food products will increase the demand and value of commodity products and provide new distribution channels.

### Toronto Business Mission - June 2004

In conjunction with PEIBD's Trade Division, 10 PEI companies were introduced to the Toronto market to find new customers and begin market research. The mission was a tremendous success in generating sales activities for the companies and provided a new direction for the agency to increase sales of Island products in the Canadian market. A return mission is being planned for November 2004.

### Seafood Promotion & Trade Show Activities

Several initiatives were implemented in 2004 to expand the market presence of Island seafood in new markets which include:

- Incoming buyers mission during the PEI International Shellfish Festival from Las Vegas, Los Angeles, Miami, Italy, and Seattle Washington. This initiative involved 15 PEI seafood processors to enter into the resort, casino, and cruise ship market.
- Global Gaming Expo -Las Vegas- A Prince Edward Island trade show booth with three PEI companies to enter into the Casino market.
- Stagewest PEI Seafood Festival -Toronto - In conjunction with Stagewest Hotel a month long seafood promotion was undertaken highlighting PEI seafood.
- Press Tour & Chef Competition - Charlottetown - A media tour was organized for Canadian Press, CTV, The Toronto Star, and The National Post to highlight PEI seafood and it's processors.

### Highlights include:

- The development of an investment newsletter called "The Opportunity Link".
- The development of an aerospace sales brochure.
- The coordination of a PEI presence at the Boston Seafood Show.

- The coordination of a PEI presence at the Canadian Food and Beverage Show.
- The development of *Small Business Week* Activities across PEI.
- The coordination of The *Top 101 Companies Reception.*

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## NEW BUSINESS DEVELOPMENT

**Alex Rogers, Director**

The New Business Development Division is responsible for attracting off-Island investment to Prince Edward Island (PEI) in the priority sectors of aerospace, food processing and export oriented manufacturing. Our goal is to be flexible, efficient and client-oriented so that a company's establishment of a business on PEI is a smooth one.

### Divisional projects in the past year include:

- Investment missions to Eastern Europe and Northwestern United States.
- Attendance at aerospace trade shows in Montreal and Ottawa.
- Pan-Atlantic Investment meetings in Moncton and St. John's.
- Development of a strategy to identify and pursue new priority sectors in manufacturing.
- Aerospace sector review and formalizing the development of a sector strategy for the aerospace industry.
- Infrastructure upgrades to Hangar 8 at Slemon Park.

### Highlights include:

- **Tronos Canada Inc.** is to establish an aircraft airframe deep maintenance facility at Slemon Park that will employ 20 employees.
- **Atlantic Beef Products** is in the process of establishing a plant to process beef from all three Maritime provinces. When the plant is fully operational, it will create 70 new jobs at its site in Albany.
- **Master Packaging** in Borden-Carleton is expanding its facility and will create 70-80 more full-time positions.
- **Testori Americas Corp.** and **Wiebel Aerospace** are expanding their operations to a site at the Bloomfield Business Park that will employ an additional 55 people.

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## TRADE & EXPORT DEVELOPMENT

**Stephen Murray, Director**

Prince Edward Island Business Development Inc.'s (PEIBDI) Trade & Export Development Division provides training, market specific information and market entry support to Prince Edward Island's (PEI) business community. The Division works to increase both the revenues generated from export sales and the number of Island companies which export their goods or services.

The Division provides leadership to Trade Team PEI, a network of provincial and federal departments and agencies with responsibilities for trade development.

Through Trade Team PEI, PEIBD provided Island businesses with assistance in their applications to participate in the Customs - Trade Partnership Against Terrorism (C-TPAT) and to ensure that food exporters complied with the new US regulations under the Bioterrorism Act of 2002. This year 65 companies were assisted by PEIBD's export security advisor to meet these new regulations.

The Division worked with over 140 companies on projects ranging from individualized training to market probe and market entry.

Trade missions are an effective method for PEI companies to gather information, evaluate competition and meet face-to-face with prospective partners.

### Highlights include;

- **Washington D.C.** - Eleven Island companies participated representing the food, wood products, ICT, education and electronics sectors. These companies estimate their sales to the region to be $1.42 million over the next two years.
- **Ireland** - Ireland continues to develop as a market for PEI companies. Wood products, education and fabricated metal products see growing sales. Six participating companies estimate sales of $7.1 million over the next two years.
- **China** - China holds the potential to be a major market for specialized products and services from PEI. Six Island firms visited the island province of Hainan and Shanghai.
- **Chile** - Chile's rapidly growing aquaculture sector provides a market for technology from PEI. As our reputation as reliable, competitive suppliers becomes known the Island's commercial relationship with Chile will continue to grow.

# Year in Review - Monthly Highlights

## April 2003

- The latest addition to the PEI aerospace industry, **MDS-PRAD Technologies Corporation**, begin construction of a new 16,000 square-foot facility in Slemon Park. The PEI facility will become home to a new research and development, engineering, and production facility.

- Five Prince Edward Island companies will be among 22 food and beverage companies from the Atlantic region that will be part of a 3,300 square-foot **Atlantic Canada Pavilion** at the International food show, SIAL Montreal.

## May 2003

- **The Entrepreneur Loan Program**, a program designed to stimulate small business activity through Prince Edward Island, has been increased by $25,000. The program will now provide Island entrepreneurs with up to $50,000 for use as an investment in eligible new and expanding businesses.

- There will be over 20 leading Prince Edward Island food and beverage processors exhibiting at the **1st Annual Taste of Prince Edward Island Food and Beverage Showcase**. The showcase is a tremendous opportunity for PEI consumers to source new products available in PEI.

- **The Province of Prince Edward Island** will support the city of Toronto by donating more than 20,000 pounds of Island cultivated mussels to city restaurants after the SARS outbreak. The donation is to help attract people back into the downtown area and help Toronto's economy recover.

## June 2003

- **Trade Team PEI announces new export security officer.** The export security advisor can provide information to Island exporters about the application process for Customs-Trade Partnership Against Terrorism (C-TAT).

- **MDMI (PEI) Inc.**, a company that focuses on the development , manufacturing and marketing of minimally invasive medical devices, officially announces the opening of a new manufacturing facility in Charlottetown.

**JULY 2003**

- **Mayor Mel Lastman and Minister Currie** announce PEI Day in Toronto. Toronto Mayor Mel Lastman presents Minister Currie and the people of Prince Edward Island with a key to the city of Toronto in honour of the province's kindness and generosity through the SARS crisis.

- **Trade Team PEI** Launches web portal. Prince Edward Island's export-oriented businesses now have easy access to comprehensive information on current trade and export activities through Trade Team PEI's new web portal.

**AUGUST 2003**

- **Honeywell** expands operations in Slemon Park. Honeywell has chosen PEI to expand its PEI operations to include the CFM 56 and CF6 fuel control business. The expansion will help develop the local workforce and highlights the career potential within the PEI aerospace industry.

**OCTOBER 2003**

- **Small Business Week** is celebrated across Prince Edward Island with many activities, such as workshops and seminars for small business owners to attend. In conjunction with Small Business Week, a **Women in Business Symposium** is organized to promote the idea and importance of life-long learning and skills development to Island women entrepreneurs and businesswomen.

- **Eleven Island** companies are recognized as **Top 101** companies in Atlantic Canada. The Progress Top 101 Reception is a distinguished annual event that is celebrated in New Brunswick, Nova Scotia, Newfoundland and Prince Edward Island, and is hosted by Progress Magazine from Halifax, Nova Scotia.

- **ProfitLearn PEI**, a new training initiative for small business managed by the University of Prince Edward Island's Centre for Life Long Learning, officially opens its doors to students.

- **Toronto Mayor Mel Lastman** visits Prince Edward Island to thank the province for all of the help it provided to his city. In 1999, the province sent 120 volunteers and 60 pieces of snow clearing equipment to help dig the city out after a huge snowstorm. In 2003, the province donated 20,000 pounds of mussels and a truckload of potatoes to aid in SARS relief.

**NOVEMBER 2003**

- **Testori Americas** expands its operations into a new facility in the West Prince Business Park. During its eight year history, Testori Americas has evolved from a small distributor of manufactured textiles into a major North American participant in the aerospace and mass transit interior industry.

- **Team Canada Atlantic** delegation wraps up trade mission to Washington, D.C. Atlantic businesses participating in the Washington mission had more than 200 business meetings with industry contacts, including potential trading partners, agents, and distributors.

- More good news for the western part of the Island as **Wiebel Aerospace Inc.** announces expansion. Wiebel currently employs 42 people in its Summerside facility. The expansion means the addition of 15 jobs in Bloomfield.

**DECEMBER 2003**

- Minister Currie announces that **The Winter Production Financing Program**, first introduced in the winter of 2000, is renewed again this winter. Assistance under the program is in the form of a repayable loan, to a maximum of $10,000 per manufacturer to assist with increased production during the winter months.

- Prince Edward Island food and beverage companies join forces with the Atlantic Superstores from both Summerside and Charlottetown to offer consumers **"Taste of PEI"** gift baskets for the holiday season.

**JANUARY 2004**

- The Fourth **Annual Prince Edward Island Craft & Giftware Buyer's Market** was held at the Delta Prince Edward Hotel. In addition to more than 60 returning producers, the event welcomed more than 15 new exhibitors to this year's show.

**FEBRUARY 2004**

- **The 27th Annual Atlantic Craft Trade Show** wraps up. Over 25 PEI companies exhibited at this year's show. PEI took home three out of the four awards at this year's reception. ACTS is organized by the provincial governments of Atlantic Canada, providing a bridge between retail and wholesale for crafts and giftware producers.

- Atlantic Canadian companies to meet with industry leaders from around the world. Through the **Canada/Atlantic Provinces COOPERATION Agreement on International Business Development**, these partners are assisting close to 50 companies from the region to prepare and participate in four upcoming trade missions and trade shows. The missions take place in Florida, England, Belgium and Scotland.

**MARCH 2004**

- **Marand Engineering** expands its operations. Marand Engineering Ltd. acquires new specialized equipment which includes a state-of-the-art CNC Laser Cutting Centre. This will allow it to expand production capacity and processes in sheet medal design and manufacturing. As a result of the expansion, four new year-round technical positions will be added to the company.

**Approved Financial Incentives to Establish or Expand Island Businesses and Developmental Organizations**

**In Fiscal Year Ended March 31, 2004**

| ECONOMIC SECTOR | 2004 No. | 2004 Amount | 2003 No. | 2003 Amount |
|---|---|---|---|---|
| Aerospace | 17 | 10,723,578 | 13 | 5,512,770 |
| Biotechnology & Pharmaceuticals | 13 | 1,088,059 | 26 | 2,817,037 |
| Craft & Giftware | 68 | 417,714 | 89 | 462,409 |
| Cultural Industries | 5 | 38,409 | 4 | 1,741 |
| Food - Agriculture | 47 | 2,095,818 | 57 | 2,292,343 |
| Food - Fisheries | 43 | 20,471,673 | 32 | 11,727,976 |
| General | 56 | 6,810,961 | 71 | 1,010,943 |
| Service | 144 | 3,221,752 | 153 | 1,865,060 |
| Film | 0 | 0 | 4 | 54,765 |
| Information Technology & Communications | 3 | 32,312 | 18 | 287,324 |
| Manufacturing | 136 | 39,722,478 | 186 | 2,581,068 |
| Tourism | 40 | 501,543 | 37 | 406,334 |
| | 572 | 85,124,297 | 690 | 29,019,770 |

| TYPE OF ASSISTANCE | No. | Amount | No. | Amount |
|---|---|---|---|---|
| Industrial Mall | 6 | 79,427 | 10 | 122,885 |
| Rental Incentive | 6 | 137,205 | 9 | 108,215 |
| Web | 80 | 36,043 | 59 | 24,012 |
| Equity Investors Incentive | 10 | 408,250 | 11 | 706,748 |
| Enterprise Development Fund/ Enterprise Assistance | 93 | 2,503,808 | 117 | 2,185,453 |
| Professional Services | 95 | 44,350 | 134 | 62,667 |
| Small Business Employee Support | 0 | 0 | 63 | 169,703 |
| New Entrepreneur Loan* | 30 | 865,600 | 25 | 541,050 |
| Low Interest Loan Program** | 0 | 0 | 5 | 272,660 |
| Loan | 26 | 46,522,332 | 15 | 2,022,000 |
| Loan Guarantee | 10 | 20,568,421 | 7 | 9,921,000 |
| Capital/Micro Business Assistance | 39 | 379,803 | 33 | 304,259 |
| Marketing & Trade Assistance | 128 | 1,337,899 | 139 | 1,306,476 |
| Infrastructure Fund | 21 | 11,580,295 | 31 | 9,571,059 |
| Winter Craft Production Financing | 21 | 166,173 | 26 | 215,374 |
| Tax Incentives - Slemon Park | 5 | 488,691 | 6 | 1,486,209 |
| Quality Improvement | 2 | 6,000 | 0 | 0 |
| | 572 | 85,124,297 | 690 | 29,019,770 |

* Repayable loans through participating financial institutions. Interest free for first year only.

** Low Interest Loans for which PEIBD pays an annual interest rebate for up to five years applied against term debt held by the PEI Lending Agency.

***Industrial Mall Subsidies***

| | # | Amount |
|---|---|---|
| Agriculture | 1 | 2,500 |
| Biotechnology | 1 | 52,251 |
| General | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 3 | 19,256 |
| Service | 1 | 5,420 |
| | **6** | **79,427** |

***Rental Incentives***

| | # | Amount |
|---|---|---|
| Agriculture | 0 | 0 |
| Biotechnology | 0 | 0 |
| Craft/Giftware | 2 | 21,825 |
| Film | 0 | 0 |
| General | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 4 | 115,380 |
| Service | 0 | 0 |
| | **6** | **137,205** |

***Equity Investor's Incentive***

| | # | Amount |
|---|---|---|
| Biotechnology | 1 | 66,290 |
| Agriculture & Food Processing | 1 | 12,000 |
| Fisheries | 1 | 9,460 |
| Film | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 5 | 202,500 |
| Services | 2 | 118,000 |
| Tourism | 0 | 0 |
| | **10** | **408,250** |

***Enterprise Development Fund (Enterprise Assistance)***

| | # | Amount |
|---|---|---|
| Aerospace | 1 | 5,000 |
| Agriculture & Food Processing | 7 | 593,000 |
| Biotechnology | 3 | 21,063 |
| Craft/Giftware | 28 | 193,657 |
| Cultural Industries | 3 | 37,500 |
| Film | 0 | 0 |
| Fisheries | 8 | 143,625 |
| General | 13 | 471,445 |
| IT & Communications | 2 | 19,448 |
| Manufacturing | 20 | 817,020 |
| Services | 3 | 86,250 |
| Tourism | 5 | 115,800 |
| | **93** | **2,503,808** |

| ***Professional Services Development*** | # | Amount |
|---|---|---|
| Agriculture & Food Processing | 7 | 3,450 |
| Biotech | 0 | 0 |
| Craft/Giftware | 3 | 1,500 |
| Cultural /industries | 0 | 0 |
| Film | 0 | 0 |
| Fisheries | 3 | 1,104 |
| General | 6 | 2,618 |
| IT & Communications | 0 | 0 |
| Manufacturing | 11 | 5,500 |
| Services | 58 | 26,846 |
| Tourism | 7 | 3,332 |
| | **95** | **44,350** |

(not on data base)

| ***Small Business Employee Support*** | # | Amount |
|---|---|---|
| Aerospace | 0 | 0 |
| Agriculture | 0 | 0 |
| Food/Fish | 0 | 0 |
| Film | 0 | 0 |
| Manufacturing & Processing | 0 | 0 |
| IT & Communications | 0 | 0 |
| Sales & Service | 0 | 0 |
| General | 0 | 0 |
| | **0** | **0** |

| ***New Entrepreneurial Loan Program*** | # | Amount |
|---|---|---|
| Agriculture | 1 | 50,000 |
| Fisheries | 1 | 50,000 |
| General | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 6 | 159,000 |
| Retail/Services | 1 | 50,000 |
| Retail | 5 | 107,100 |
| Service | 14 | 384,500 |
| Service/Mfg | 0 | 0 |
| Tourism | 2 | 65,000 |
| | **30** | **865,600** |

| ***Venture Capital Loan*** | # | Amount |
|---|---|---|
| Fisheries | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 0 | 0 |
| | **0** | **0** |

| ***Low Interest Loan Program*** | # | Amount |
|---|---|---|
| Agriculture/Food Processing | 0 | 0 |
| Craft/Giftware | 0 | 0 |
| Fisheries | 0 | 0 |
| General | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 0 | 0 |
| Services | 0 | 0 |
| Tourism | 0 | 0 |
| | **0** | **0** |

| ***Loans*** | # | Amount |
|---|---|---|
| Aerospace | 0 | 0 |
| Agriculture & Food Processing | 2 | 1,112,500 |
| Biotechnology | 3 | 89,700 |
| Craft/Giftware | 0 | 0 |
| Film | 0 | 0 |
| Fisheries | 0 | 0 |
| General | 1 | 5,500,000 |
| IT & Communications | 0 | 0 |
| Manufacturing | 13 | 37,260,132 |
| Services | 4 | 2,310,000 |
| Tourism | 3 | 250,000 |
| | **26** | **46,522,332** |

| ***Loan Guarantees*** | # | Amount |
|---|---|---|
| Agriculture | 1 | 20,121 |
| Aerospace | 1 | 2,500,000 |
| Film | 0 | 0 |
| Fisheries | 6 | 17,984,300 |
| General | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 0 | 0 |
| Service | 2 | 64,000 |
| Tourism | 0 | 0 |
| | **10** | **20,568,421** |

| ***Capital Assistance (Micro Business)*** | # | Amount |
|---|---|---|
| Agriculture/Food Processing | 7 | 89,155 |
| Biotechnology | 1 | 9,850 |
| Craft/Giftware | 1 | 16,000 |
| Cultural Industries | 0 | 0 |
| Fisheries | 7 | 72,600 |
| General | 2 | 9,608 |
| IT & Communications | 0 | 0 |
| Manufacturing | 15 | 138,972 |
| Services | 6 | 43,618 |
| Film | 0 | 0 |
| Tourism | 0 | 0 |
| | **39** | **379,803** |

| ***Marketing Assistance*** | # | Amount |
|---|---|---|
| Aerospace | 4 | 32,331 |
| Agriculture/Food Processing | 10 | 64,505 |
| Biotechnology | 1 | 17,905 |
| Craft/Giftware | 21 | 102,552 |
| Cultural Industries | 0 | 0 |
| Film | 0 | 0 |
| Fisheries | 12 | 229,984 |
| General | 12 | 232,675 |
| IT & Communications | 1 | 12,864 |
| Manufacturing | 34 | 185,515 |
| Services | 2 | 2,808 |
| Tourism | 4 | 59,853 |
| | **101** | **940,992** |

| ***Trade Assistance*** | # | Amount |
|---|---|---|
| Agriculture/Food Processing | 2 | 1,433 |
| Biotechnology | 0 | 0 |
| Cultural Industries | 0 | 0 |
| Fisheries | 0 | 0 |
| General | 21 | 369,815 |
| IT & Communications | 0 | 0 |
| Manufacturing | 3 | 23,412 |
| Services | 1 | 2,247 |
| Tourism | 0 | 0 |
| **(Combine Marketing & Trade Assistance for Annual Report Totals)** | **27** | **396,907** |

| ***Infrastructure Fund*** | # | Amount |
|---|---|---|
| Aerospace | 6 | 7,697,556 |
| Agriculture/Food Processing | 3 | 127,294 |
| Biotechnology | 3 | 831,000 |
| Craft/Giftware | 0 | 0 |
| Film | 0 | 0 |
| Fisheries | 4 | 1,980,100 |
| Food Processing | 0 | 0 |
| General | 1 | 224,800 |
| IT & Communications | 0 | 0 |
| Manufacturing | 4 | 719,545 |
| Services | 0 | 0 |
| Tourism | 0 | 0 |
| | **21** | **11,580,295** |

| ***Quality Improvement Support*** | # | Amount |
|---|---|---|
| Aerospace | 0 | 0 |
| Agriculture/Food Processing | 1 | 4,000 |
| Biotechnology | 0 | 0 |
| Craft/Giftware | 0 | 0 |
| Film | 0 | 0 |
| Fisheries | 0 | 0 |
| General | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 1 | 2,000 |
| Services | 0 | 0 |
| Tourism | 0 | 0 |
| | **2** | **6,000** |

| ***Small Business Equity Investments*** | # | Amount |
|---|---|---|
| Agriculture | 0 | 0 |
| Film | 0 | 0 |
| Fisheries | 0 | 0 |
| General | 0 | 0 |
| IT & Communications | 0 | 0 |
| Manufacturing | 0 | 0 |
| Services | 0 | 0 |
| Tourism | 0 | 0 |
| | **0** | **0** |

| ***Tax Incentives - Slemon Park*** | # | Amount |
|---|---|---|
| Aerospace | **5** | **488,691** |

| ***Web*** | # | Amount |
|---|---|---|
| Agriculture/Food Processing | 2 | 860 |
| Craft/Giftware | 2 | 1,000 |
| Cultural Industires | 2 | 909 |
| Fisheries | 1 | 500 |
| IT & Communications General | 0 | 0 |
| Manufacturing | 9 | 4,253 |
| General | 5 | 2,500 |
| Retail/Services | 40 | 18,463 |
| Tourism | 19 | 7,558 |
| | **80** | **36,043** |

| ***WINTER PRODUCTION FINANCING*** | # | Amount |
|---|---|---|
| Agriculture | 1 | 10,000 |
| Craft/Giftware | 11 | 81,180 |
| Food Processing | 1 | 5,000 |
| Manufacturing | 8 | 69,993 |
| Tourism | 0 | 0 |
| | **21** | **166,173** |

**P.E.I.B.D.I. - 2003-04 Approval**
**Summary - For Balancing Purposes**

03-04

| **Data Base (enter totals from DB)** | # | $ Approved |
|---|---|---|
| Capital Assistance | 39 | 379,803 |
| Enterprise Development Fund | 93 | 2,503,808 |
| Web | 80 | 36,043 |
| Equity Investor's | 10 | 408,250 |
| Industrial Mall Subsidy | 6 | 79,427 |
| Infrastructure | 21 | 11,580,295 |
| Loan Guarantee | 10 | 20,568,421 |
| Loans | 26 | 46,522,332 |
| Low Interest Loan | 0 | 0 |
| Marketing Assistance | 101 | 940,992 |
| Professional Services | 95 | 44,350 |
| Rental Incentive | 6 | 137,205 |
| Tax Incentives | 5 | 488,691 |
| Trade Assistance | 27 | 396,907 |
| WPFP Craft Loan | 21 | 166,173 |
| Quality Improvement Support | 2 | 6,000 |
| Entrepreneur Loan | 30 | 865,600 |
| Total - Per Data Base | **573** | **85,124,296** |
| **Grand Total - All Programs** | **573** | **85,124,296** |
| **Grand Total - All Programs (Summary)** | **572** | **85,124,297** |

# Prince Edward Island Business Development Inc.

Consolidated Financial Statements
**March 31, 2004**

ARSENAULTBESTCAMERONELLIS
CHARTERED ACCOUNTANTS

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Prince Edward Place
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PO Box 455
Charlottetown, Prince Edward Island
Canada C1A 7L1
Telephone (902) 368-3100
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June 9, 2004

**Auditors' Report**

**To the Minister of Development and Technology**

We have audited the consolidated balance sheet of **Prince Edward Island Business Development Inc.** as at March 31, 2004 and the consolidated statements of revenues and expenditures, retained earnings (deficit) and contributed surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

**Chartered Accountants**

# Prince Edward Island Business Development Inc.

Consolidated Balance Sheet

**As at March 31, 2004**

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and short-term investments (note 3) | 1,196,293 | 2,619,486 |
| Accounts receivable (notes 4 and 19) | 1,911,427 | 1,937,855 |
| Accrued interest receivable (note 19) | 283,215 | 24,266 |
| Grant receivable – ACOA | 1,472,250 | - |
| Inventory (note 4) | 136,846 | 98,079 |
| Prepaid expenses | 2,159 | 12,751 |
| Deposits on equipment | 197,626 | - |
| Current portion of loans receivable | 6,864,782 | 2,500,701 |
| Deferred charges | 3,582,473 | - |
| | 15,647,071 | 7,193,138 |
| **Due from the Province of Prince Edward Island** (note 5) | 4,601,503 | 525,791 |
| **Loans receivable**, less current portion (note 6) | 20,497,842 | 945,020 |
| **Investment in non-marketable securities** (note 7) | 3,205,502 | 3,700,168 |
| **Property holdings** (note 8) | 11,356,492 | 9,493,328 |
| **Property and equipment** (notes 9 and 19) | 31,530,224 | 34,144,859 |
| **Funds held in trust** (notes 3, 10 and 19) | 3,009,257 | 6,721,954 |
| **Net investment in leases** (note 11) | 1,007,320 | 1,007,320 |
| | 90,855,211 | 63,731,578 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (notes 16 and 19) | 20,284,509 | 16,672,199 |
| Provision for payment of guarantees (note 16) | 1,497,467 | 1,564,510 |
| Deferred revenue | 38,240 | 30,319 |
| Deferred contributions | 244,197 | 49,504 |
| Progress billings in excess of work-in-progress | 50,697 | 1,841 |
| Short-term notes payable (note 12) | 13,743,916 | - |
| Current portion of notes payable and long-term debt | 1,146,438 | 1,286,274 |
| Current portion of obligation under capital lease | 70,000 | 20,000 |
| | 37,075,464 | 19,624,647 |
| **Funds held in trust** (notes 10 and 19) | 3,009,257 | 6,721,954 |
| **Notes payable and long-term debt**, less current portion (note 13) | 33,141,824 | 20,088,261 |
| **Obligation under capital lease**, less current portion (note 14) | 810,000 | 880,000 |
| **Deferred credits** (notes 15 and 19) | 15,200,084 | 14,796,163 |
| | 89,236,629 | 62,111,025 |
| **Contingent liabilities** (note 16) | | |
| **Equity** | | |
| **Contributed surplus** (note 19 and 21) | 1,560,295 | 1,786,248 |
| **Retained earnings (deficit)** | 58,287 | (165,695) |
| | 1,618,582 | 1,620,553 |
| **Approved by the Corporation** | 90,855,211 | 63,731,578 |

_____ Minister

# Prince Edward Island Business Development Inc.

Consolidated Statement of Retained Earnings (Deficit) and Contributed Surplus

**For the year ended March 31, 2004**

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| **Deficit – Beginning of year** | (165,695) | (781,184) |
| Excess revenue (expenditures) for the year | (1,971) | 416,066 |
| | (167,666) | (365,118) |
| Transfer of contributed surplus (note 21) | 225,953 | 199,423 |
| **Retained earnings (deficit) – End of year** | 58,287 | (165,695) |
| | | |
| **Contributed surplus – Beginning of year** | 1,786,248 | 1,786,248 |
| Transfer of net assets from related company (note 20) | - | 199,423 |
| | 1,786,248 | 1,985,671 |
| Transfer to deficit (note 21) | (225,953) | (199,423) |
| **Contributed surplus – End of year** | 1,560,295 | 1,786,248 |

# Prince Edward Island Business Development Inc.

Consolidated Statement of Revenues and Expenditures

**For the year ended March 31, 2004**

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| **Revenue** (note 19) | | |
| Grant – Province of P.E.I. | 27,927,100 | 30,717,000 |
| Investment operations | 104,131 | 993,477 |
| Interest on loans receivable | 496,188 | 398,385 |
| Guarantee fees | 326,150 | 181,778 |
| Interest from deposits | 20,643 | 36,820 |
| Property operations | 3,412,587 | 2,004,915 |
| Miscellaneous | 21,661 | 71,432 |
| Project revenues | 810,810 | 1,074,343 |
| Retail operations (Schedule) | 206,491 | 269,927 |
| | 33,325,761 | 35,748,077 |
| **Expenditures** (note 19) | | |
| Operating | 9,052,936 | 7,617,897 |
| Property operations | 2,257,255 | 2,483,992 |
| Development programs | 16,847,483 | 20,092,357 |
| Allowance for possible credit losses and guarantee payments (note 5) | 1,578,987 | 1,205,994 |
| Investment operations | 2,064,795 | 2,660,842 |
| Project costs | 318,593 | 456,333 |
| Retail operations (Schedule) | 125,651 | 144,461 |
| Amortization – property holdings, property and equipment and deferred costs | 2,676,855 | 2,494,812 |
| Amortization – deferred credits | (1,594,823) | (1,824,677) |
| | 33,327,732 | 35,332,011 |
| **Excess revenue (expenditures) for the year** | (1,971) | 416,066 |

# Prince Edward Island Business Development Inc.

Consolidated Statement of Cash Flows

**For the year ended March 31, 2004**

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Excess revenue (expenditures) for the year | (1,971) | 416,066 |
| Items not affecting cash | | |
| Amortization – deferred credits | (1,594,823) | (1,824,677) |
| Amortization – property holdings, property and equipment and deferred costs | 2,676,855 | 2,494,812 |
| Decrease (increase) in due from the Province of Prince Edward Island – allowance for possible losses | (1,358,977) | 9,560,863 |
| Provision for possible losses - subsidiaries | - | 87,500 |
| | (278,916) | 10,734,564 |
| Net change in non-cash working capital items | | |
| Decrease in accounts receivable - net | 26,428 | 1,040,487 |
| Decrease (increase) in accrued interest receivable | (258,949) | 96,758 |
| Decrease (increase) in grant receivable – ACOA | (1,472,250) | 587,000 |
| Increase in deposits on equipment | (197,626) | - |
| Increase in deferred charges | (3,582,473) | - |
| Increase in deferred contributions | 194,693 | 49,504 |
| Decrease in prepaid expenses | 10,592 | 6,439 |
| Increase in inventory | (38,767) | (11,283) |
| Decrease in provision for payment of guarantees | (67,043) | (20,490) |
| Increase in accounts payable and accrued liabilities | 3,612,310 | 775,290 |
| Increase in deferred revenue | 7,921 | 2,418 |
| Increase in progress billings in excess of work in progress | 48,856 | 871 |
| | (1,995,224) | 13,261,558 |
| **Financing activities** | | |
| Increase in due from the Province of P.E.I. – current operations | (2,716,735) | (992,942) |
| Increase (decrease) in deferred credits – net | 1,998,744 | (167,102) |
| Net change in funds held in trust | (3,712,697) | (4,853,947) |
| Increase in short-term notes payable | 13,743,916 | - |
| Increase (decrease) in notes payable and long-term debt (net) | 12,913,727 | (3,954,921) |
| Increase in net investment in leases | - | (5) |
| Increase (decrease) in obligation under capital lease | (20,000) | 900,000 |
| Increase in contributed surplus | - | 199,423 |
| | 22,206,955 | (8,869,494) |
| **Investing activities** | | |
| Purchase of property and equipment – net | (1,917,970) | (9,852,240) |
| Additions to and purchases of property holdings | (219,575) | (2,480,115) |
| Reductions of and proceeds on disposal of property holdings | 212,161 | 23,322 |
| Decrease in investment in non-marketable securities | 494,666 | 1,820,358 |
| Decrease (increase) in loans receivable (net) | (23,916,903) | 2,202,897 |
| | (25,347,621) | (8,285,778) |
| **Decrease in cash and short-term investments and funds held in trust** | (5,135,890) | (3,893,714) |
| **Cash and short-term investments and funds held in trust – Beginning of year** | 9,341,440 | 13,235,154 |
| **Cash and short-term investments and funds held in trust – End of year** | 4,205,550 | 9,341,440 |

## 1. Status of the Corporation

Prince Edward Island Business Development Inc. is a Crown corporation incorporated under the Prince Edward Island Business Development Inc. Act (formerly Enterprise P.E.I. Act). Its financial results are included in the public accounts of the Province of Prince Edward Island.

## 2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

### a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, F.T.C. Enterprises Limited, Environmental Industrial Services Inc., Corporate Services Ltd., Gateway Village Development Inc., Solanum – P.E.I., A Canadian Potato Systems Company Inc., Island Products Holding Inc., Technology Prince Edward Island Inc. and 100417 P.E.I. Inc. all having March 31, 2004 year ends.

### b) Differential reporting options

The company, with the unanimous consent of its shareholder, the Province of Prince Edward Island, has elected to prepare its statements in accordance with Canadian generally accepted accounting principles using the differential reporting options available to non-publicly accountable enterprises described below:

i) Investment subject to significant influence

The company has elected to use the cost method to account for its investment in Slemon Park Corporation. Slemon Park Corporation is subject to significant influence and would otherwise be accounted for using the equity method of accounting. Details of the investment is as follows:

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| 56,000 common shares of Slemon Park Corporation | 1 | 1 |

These shares are held by 100417 P.E.I. Inc. and represent 56% of the issued common shares of the company. The purpose of 100417 P.E.I. Inc. is to hold these shares and distribute them over time to anchor tenants in accordance with the original objectives of Slemon Park Corporation.

### c) Inventory

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and market, which is defined as net realizable value.

d) **Due from the Province of Prince Edward Island**

i) Current operations

Operating grant – Province of Prince Edward Island is the balance due (to) from the Province for grants (in excess of) or less than expenditures in the current year.

Excess revenue for the 2003 year for the parent company, Prince Edward Island Business Development Inc., was recorded as a reduction in deficit and was not required to be returned to the province as a component of current operations.

ii) Allowance for possible credit losses

The annual funded allowance for possible credit losses (expense or recovery) is recorded as an amount "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses". The "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses" is reduced when a write-off is recognized by both Prince Edward Island Business Development Inc. and the Province, with notes payable reduced correspondingly. The allowance for possible losses is also reduced by any payment received from the Province on the allowance for possible losses for guarantees. During the year, Prince Edward Island Business Development Inc. recorded an allowance and corresponding expense of $1,578,987 (2003 – $1,205,996). The transfer to current operations for concessionary investments and property holdings of nil (2003 – $5,419,061) reduced the allowance for possible losses and corresponding notes payable.

e) **Loans receivable**

Working capital demand loans and craft loans are recorded at cost less an allowance for possible losses. These loans are due on demand and bear interest at rates ranging from 4% to 9.5% and are repayable within the next fiscal year.

Long-term loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 12 years with interest rates ranging from 4% to 9.25%.

An impaired loan is where, in management's opinion, there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

f) **Allowance for possible losses**

An allowance for possible losses is maintained which is considered adequate to absorb all credit and investment related losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The allowance for guarantees is included in accounts payable for Entrepreneurial Loan Program guarantees and as "Provision for payment of guarantees" on the balance sheet for the remaining guarantee allowance.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions total $2,594,385 (2003 – $1,197,514). The accumulated allowances for losses on specific off-balance sheet items at March 31, 2004 total $1,665,551 (2003 – $1,764,410). Of this total, $168,084 (2003 - $200,000) is included in the accounts payable and accrued liabilities, and $1,497,467 (2003 – $1,564,410) is recorded as provision for payment of guarantees.

The company does not accrue interest on a loan receivable once a specific provision has been recorded against the loan.

The corporation reviews its investments and advances, leased property and property holdings and guarantees on an ongoing basis to assess whether an allowance or write-off is required.

A variety of methods are used to determine the amount expected to be recovered from investments and advances to private companies and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision of $324,788 (2003 – $424,287) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar assets, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

g) **Investment in non-marketable securities**

Investment in and advances to private companies not considered to be concessionary are recorded on the balance sheet at one-half of cost less an expense of 50% to development programs, except for two preferred share investments, less an allowance for possible losses. Any recovery exceeding the balance in share investment is taken into revenue when received.

The two investments in preferred shares of private companies that are not being carried at one-half of their cost are being carried at the lower of cost and estimated realizable value.

Investments under the Venture Capital Equity Program are recorded at cost less an allowance for possible losses.

Advances – Venture Capital Debt Program are recorded at cost, less an allowance for possible losses.

Equity investments are reviewed annually for potential declines in value and are written down or an allowance is recorded if a decline in value is considered evident. Write downs are included in programs expense.

It is not practical within constraints of timeliness and cost to determine the fair value of the investment in private companies as these investments are in closely held private companies that have no organized financial market. The estimated realizable value of these investments and advances is based on expected future cash flows.

h) **Property holdings, property and equipment and amortization**

i) Property holdings

Property holdings are reported at the lower of cost, net of government grants, and estimated realizable value.

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition, except for F.T.C. Enterprises Limited and Atlantic Technology Centre Inc., a subsidiary of Technology Prince Edward Island Inc., which record these items as a capital asset at cost less accumulated amortization. The amount expensed during the year ended March 31, 2004 was $177,265 (2003 – $89,804). Land improvements and buildings in Prince Edward Island Business Development Inc. are amortized using the straight-line method at the rates of 10% and 4% respectively. Land and improvements and equipment included in industrial sites are amortized using the straight-line method at the annual rates of 8% and 20% respectively. Buildings held for resale and industrial malls are amortized using the straight-line method at the annual rates of 7% and 4%. Proceeds on the sale of industrial sites are recorded as a reduction in the carrying value of the asset. The test cells are amortized using the straight-line method at the annual rate of 4%. Signage is amortized using the straight-line method at the annual rate of 20%.

ii) Property and equipment – F.T.C. Enterprises Limited

Design and pre-construction costs incurred by the company associated with a building to be constructed were recorded as building soft costs in the 2003 year. These costs have been capitalized in the current year as part of the building under construction. Amortization of costs related to the building under construction will commence upon completion of construction.

iii) Amortization

Property and equipment are amortized using the straight-line method at annual rates ranging from 5% to 100% as indicated in note 9.

A full year's amortization is recorded in the year of acquisition.

iv) Estimated realizable value

Estimated realizable value for industrial sites is the expected proceeds on resale and for industrial malls it is the property tax assessed value.

Estimated realizable value for land, buildings and equipment held for resale under lease purchase options is its property tax assessed value.

Estimated realizable value for the test cell is the net cost to construct the asset supported by a payment under a long-term lease agreement.

The reduction from cost to estimated realizable value is recorded as a provision for possible losses.

i) **Net investment in leases**

The company's subsidiaries accumulate costs of constructing assets, that are to be classified as capital leases, as assets under capital lease, and the related grants as deferred credits until the lease term begins. When the lease term begins, the assets under capital lease and deferred credits are removed from the balance sheet and a net investment in leases is recorded. The net investment in leases represents the minimum lease payments receivable over the term of the lease plus the purchase option.

j) **Programs assistance payable**

Provincially funded non-cost shared program assistance is expensed and included in accrued liabilities when approved and accepted. Federal-Provincial cost shared programs are expensed when the funds are disbursed. Infrastructure assistance requiring future performance criteria is expensed when the funds are disbursed. Certain infrastructure assistance approved and not disbursed at year end is recorded as deferred charges.

The P.E.I. Food Products Development Fund is a provincially-funded research assistance program administered by F.T.C. Enterprises Limited. Grants under the program are included in income and a corresponding expense and accrued liability is recorded when the grant is received. The accrued liability is reduced when contributions are made to projects. There is $354,249 (2003 - $178,305) in unexpended assistance included in accrued liabilities at year-end. The company has committed funds to qualifying projects in the amount of $173,205 for the 2005 fiscal year.

k) **Federal programs and grants**

Federal programs

Prince Edward Island Business Development Inc. administers programs on behalf of the Federal Government. Any difference between federal funding received and program expenditures is recorded as an accounts receivable or accounts payable. During the year, Prince Edward Island Business Development Inc. disbursed $495,437 (2003 – $1,256,112) under the programs. Included in accounts receivable is $97,986 (2003 – $360,367) due from the federal government relating to the 2004 programs.

Included in the development program expenditures is $293,911 (2003 – $228,841) in costs related to salary costs of Prince Edward Island Business Development Inc. employees who deliver and administer these programs. This cost recovery has been recorded as a reduction in Prince Edward Island Business Development Inc.'s operating expenditures.

Federal grants

Federal government grants received relating to operating or program expenditures are recorded as a reduction in the related expenditures in the period received. During the year, the company has recorded $448,392 (2003 – $507,120) as a reduction of development program expenditures for federal grants received.

l) **Pension liability**

Most of the corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the corporation and no liability for these costs has been accrued by the corporation.

m) **Deferred credits**

Prince Edward Island Business Development Inc. subsidiaries have adopted the policy that contributions received towards the acquisition of property and equipment will be recorded as deferred credits and amortized to earnings on the same basis as the related property and equipment are amortized. Contributions received and not spent on property and equipment at year-end are recorded as deferred contributions.

n) **Revenue recognition**

Prince Edward Island Business Development Inc. subsidiaries follow the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the balance sheet date. Unearned revenue is recorded as deferred revenue.

Work in progress in excess of progress billings is recorded at year end to appropriately recognize revenue under the percentage-of-completion basis of accounting when work in progress is in excess of actual billings generated. When progress billings are in excess of the related work in progress at year end the excess is recorded as progress billings in excess of work in progress.

Revenue from product royalties is recorded as received.

o) **Film and new media investments**

Investments made under the film and new media equity investments program are recorded as an expense under program expenditures when approved and accepted by the client. Revenue received as a recovery of those investments based on a percentage of income or under royalty agreements is recorded as revenue in the period received.

p) **Interest expense**

Interest paid by Prince Edward Island Business Development Inc. is included in the expenditure category to which it relates. Included in expenses is interest expense for 2004 as follows:

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Interest on short-term borrowings | 81,303 | 45,122 |
| Interest on long-term debt | 2,306,499 | 1,908,248 |
| | 2,387,802 | 1,953,370 |

q) **Management estimates**

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period.

r) **Estimated realizable value of financial instruments**

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. The company's financial instruments are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

## 3. Market value of investments

Cash and short-term investments and funds held in trust of $4,205,550 (2003 – $9,341,440) consist of portfolio investments and cash having a quoted market value of $4,305,059 (2003 – $9,445,760). The majority of marketable securities have a fixed value and it is expected that most securities will be held until they mature.

## 4. Accounts receivable and inventory

The accounts receivable have been reduced by an allowance for possible losses of $27,977 (2003 – $43,732).

Inventory has been reduced by an allowance for possible losses of $56,308 (2003 – $11,230).

## 5. Due from the Province of Prince Edward Island

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| **Current operations** | | |
| Operating grant - Province of Prince Edward Island | 422,065 | (2,294,670) |
| **Allowance for possible losses** | | |
| Balance – beginning of year | 2,820,461 | 12,381,324 |
| Current year's allowance for possible credit losses expense | 1,578,987 | 1,205,996 |
| Current year write-offs | - | (5,106,860) |
| Current year's provision for possible losses recorded as a surplus | - | 562,055 |
| Transfer to current operations for concessionary investments and property holdings (notes 7 and 8) | - | (5,419,061) |
| Payment on provision for possible losses | (220,010) | (802,993) |
| | 4,179,438 | 2,820,461 |
| Balance – end of year | 4,601,503 | 525,791 |

## 6. Loans receivable

| | Total $ | Impaired Loans included in total $ | Allowance for possible losses General $ | Allowance for possible losses Specific $ | 2004 Net $ | 2003 Net $ |
|---|---|---|---|---|---|---|
| **Working capital demand and craft loans** | 7,712,259 | 581,208 | - | 990,973 | 6,721,286 | 1,959,480 |
| **Long-term loans** | | | | | | |
| Manufacturing and processing | 18,827,004 | 126,525 | 87,586 | 578,432 | 18,160,986 | 771,381 |
| Tourism | 300,000 | - | - | 60,000 | 240,000 | 320,000 |
| Small business | 2,487,297 | - | - | 440,000 | 2,047,297 | 154,913 |
| Other | 173,373 | - | - | - | 173,373 | 210,515 |
| Technology | 19,682 | - | - | - | 19,682 | 29,432 |
| | 21,807,356 | 126,525 | 87,586 | 1,078,432 | 20,641,338 | 1,486,241 |
| **Total Loans Receivable** | 29,519,615 | 707,733 | 87,586 | 2,069,405 | 27,362,624 | 3,445,721 |
| Less: loans due within the next fiscal year | 7,276,032 | 581,208 | - | 411,250 | 6,864,782 | 2,500,701 |
| | 22,243,583 | 126,525 | 87,586 | 1,658,155 | 20,497,842 | 945,020 |

Included in working capital loans is a demand note receivable of $5,500,000 (2003 – nil) due from Prince Edward Island Economic Development Fund (No. IV) Inc., a subsidiary of a provincial Crown corporation.

## 7. Investment in non-marketable securities

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| **Investment in private companies** | | |
| Small Business and Venture Capital Equity Program investments | 524,071 | 608,530 |
| Less: Allowance for possible losses | 255,000 | 100,000 |
| | 269,071 | 508,530 |
| Investment in preferred shares of private corporations | 2,904,813 | 3,144,814 |
| Royalties receivable from private corporation | 31,618 | 31,618 |
| | 3,205,502 | 3,684,962 |
| **Advances – Venture Capital Debt Program** | | |
| Advances to private companies – bearing interest at variable rates, repayable on performance | 269,980 | 283,775 |
| Less: Allowance for possible losses | 269,980 | 268,569 |
| | - | 15,206 |
| | 3,205,502 | 3,700,168 |

Of the preferred shares in private corporations, $50,000 are to be redeemed by the issuer at the rate of $10,000 per year, with the first redemption to occur in the 2008 year.

The royalties receivable are non-interest bearing and are to be recoverable in the amount of 1.25% of gross income received by the purchaser for the direct sales of the products sold or 12.5% of net licensing fees received by the purchaser for licensing agreements, with one-half of these royalties being payable to the original patent holders by F.T.C. Enterprises Limited under an assignment. During the year, F.T.C. Enterprises Limited received net royalties of nil (2003 – nil).

## 8. Property holdings

| | | | 2004 | 2003 |
|---|---|---|---|---|
| | Cost<br>$ | Accumulated amortization and grants<br>$ | Net<br>$ | Net<br>$ |
| Land | 981,500 | - | 981,500 | 981,500 |
| Land improvements | 44,766 | 13,430 | 31,336 | 35,812 |
| Building | 1,611,451 | 193,374 | 1,418,077 | 1,482,533 |
| Land, buildings and equipment held for resale or under lease purchase option | 2,593,439 | 929,638 | 1,663,801 | 1,889,723 |
| Industrial sites | 11,155,502 | 8,527,068 | 2,628,434 | 329,761 |
| Industrial malls | 2,806,046 | 2,806,046 | - | - |
| Test cells | 4,937,000 | 343,749 | 4,593,251 | 4,729,361 |
| Signage | 64,066 | 23,973 | 40,093 | 44,638 |
| | 24,193,770 | 12,837,278 | 11,356,492 | 9,493,328 |

Included in land, buildings and equipment held for resale or under lease purchase options is land of $991,382 (2003 - $1,105,159).

Included in industrial sites is land of $624,210 (2003 - $329,762).

## 9. Property and equipment

| | Amortization rate % | Cost $ | Accumulated amortization $ | 2004 Net $ | 2003 Net $ |
|---|---|---|---|---|---|
| **F.T.C. Enterprises Limited** | | | | | |
| Building | 5 SL | 2,544,514 | 1,823,187 | 721,327 | 848,553 |
| Building soft costs | | - | - | - | 99,167 |
| Building under construction | | 941,446 | - | 941,446 | - |
| Pilot plant and laboratory equipment | 10 – 20 SL | 2,469,042 | 1,616,767 | 852,275 | 311,772 |
| Computer and audio visual equipment | 33 1/3 SL | 474,866 | 445,146 | 29,720 | 17,375 |
| Office furniture and equipment | 20 SL | 171,779 | 166,124 | 5,655 | 10,747 |
| | | 6,601,647 | 4,051,224 | 2,550,423 | 1,287,614 |

Included in pilot plant and laboratory equipment is $623,542 (2003 –nil) of equipment purchased during the 2004 fiscal year for use in the building under construction. No amortization has been recorded on this equipment in the current year as it was not available for use. Amortization of these assets will commence when the equipment is put to commercial use.

| | | | | | |
|---|---|---|---|---|---|
| **Souris Food Park Development Corporation** | | | | | |
| Land | | - | - | - | 242,898 |
| Land improvements | 8 SL | - | - | - | 1,306,176 |
| Waste treatment – soft costs | 8 SL | - | - | - | 55,062 |
| Soft costs | 8 SL | - | - | - | 1,006,056 |
| | | - | - | - | 2,610,192 |
| **Gateway Village Development Inc.** | | | | | |
| Land | | 1 | - | 1 | 1 |
| Building – Phase I | 5 SL | 3,095,313 | 1,057,565 | 2,037,748 | 2,192,513 |
| – Phase II | 5 SL | 1,656,309 | 496,892 | 1,159,417 | 1,242,232 |
| Land improvements – Phase I | 10 SL | 816,743 | 558,109 | 258,634 | 340,309 |
| – Phase II | 10 SL | 357,244 | 213,734 | 143,510 | 179,235 |
| Interpretative Centre | 20 SL | 1,078,080 | 1,078,080 | - | 2,323 |
| Retail fixtures – Phase I | 20 SL | 77,466 | 77,466 | - | 1,720 |
| – Phase II | 20 SL | 95,970 | 95,970 | - | 2,362 |
| Signage | 20 SL | 12,798 | 12,798 | - | 2,559 |
| | | 7,189,924 | 3,590,614 | 3,599,310 | 3,963,254 |
| **Environmental Industrial Services Inc.** | | | | | |
| Bloomfield Mall | | | | | |
| Land improvements | 10 SL | 142,328 | 21,349 | 120,979 | 135,212 |
| Building | 4 SL | 1,823,975 | 109,439 | 1,714,536 | 1,787,495 |
| Waste treatment facility | 3.33 SL | 289,014 | 12,540 | 276,473 | 258,621 |
| | | 2,255,317 | 143,328 | 2,111,988 | 2,181,328 |
| Property for development – land | | 929,085 | - | 929,085 | 929,085 |
| Soft costs | | 86,307 | - | 86,307 | 86,307 |
| | | 3,270,709 | 143,329 | 3,127,380 | 3,196,720 |

| | | | | | |
|---|---|---|---|---|---|
| **Technology Prince Edward Island Inc.** | | | | | |
| Property and equipment | | | | | |
| Land | | 2,391,916 | - | 2,391,916 | 2,378,082 |
| Land improvements | 10 SL | 67,000 | 10,050 | 56,950 | 63,650 |
| Building | 2.5 SL | 18,841,889 | 702,808 | 18,139,081 | 18,309,079 |
| Furniture and fixtures | 20 SL | 313,273 | 93,460 | 219,813 | 277,250 |
| Computer hardware | 33 1/3 SL | 1,424,927 | 699,576 | 725,351 | 1,139,018 |
| Computer software | 100 SL | 50,800 | 50,800 | - | 20,000 |
| | | 23,089,805 | 1,556,694 | 21,533,111 | 22,187,079 |
| Asset under capital lease | | | | | |
| Interactive theatre | 20 SL | 900,000 | 180,000 | 720,000 | 900,000 |
| | | 23,989,805 | 1,736,694 | 22,253,111 | 23,087,079 |
| | | 41,052,085 | 9,521,861 | 31,530,244 | 34,144,859 |

SL – straight line

## 10. Funds held in trust

Under the terms of an agreement between Corporate Services Ltd., Prince Edward Island Government Economic Development Fund (No. IV) Inc., (Island Fund IV), and Prince Edward Island Government Economic Development Fund (No. V) Inc., (Island Fund V), Corporate Services Ltd. is to act as the Escrow Agent for investors of a $30,000,000 venture capital fund offering for Island Fund IV and $35,000,000 venture capital fund offering for Island Fund V.

Corporate Services Ltd. receives the subscription forms from potential investors and holds the funds in trust until the commencement date. The commencement date is to be established within 100 days of receipt of twelve subscriptions. On the commencement date, the Escrow Agent shall:

- Advance to Island Fund IV or Island Fund V
  - 70% of subscription proceeds to be reinvested; and
  - 10% of subscription proceeds to be used to cover offering and operating costs;

  Interest earned on the account while the funds are in escrow is the property of the specific fund.

- Establish a repayment account to retain on deposit the remaining 20% of the subscription proceeds to be invested in liquid, low-risk investment account, for the purpose of refunding rejected investors. Interest earned on the repayment account accrue to the benefit of the specific project, Island Investment Development Inc., or Island Fund IV or V as applicable, and not Corporate Services Ltd.

## 11. Net investment in leases

The net investment in leases represents the minimum lease payments over the term of the lease plus purchase options receivable. The net investment in leases consists of the following:

Environmental Industrial Services Inc.

Environmental Industrial Services Inc. has entered into agreements to lease three properties on terms that require these leases to be accounted for as capital leases. In accounting for the capital leases, the property and equipment and related deferred credits have been removed and the lease payments receivable recorded as net investment in leases. The net investment in leases consists of the following:

- McCain Foods Limited – 10-year lease term for the period from February 20, 1991 to December 31, 2000, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $20.
- Cavendish Farms – 8-year lease term for the period from January 1, 1994 to December 31, 2001, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $10.

Both leases have been extended an additional 10 years at the expiration of the original lease term at the option of the lessee.

- Small Fry Snack Foods Inc. – 9-year lease term for the period from December 22, 1996 to December 31, 2005, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $7,260.

Prince Edward Island Business Development Inc.

Souris Food Park Development Corporation had entered an agreement to lease its property on terms that require the lease to be accounted for as capital leases. When the company entered into the capital lease for capital property that it owned, the property and equipment and related deferred credits were removed and the company recorded a net investment in lease. This investment in lease was assumed by Prince Edward Island Business Development Inc. during the year as part of the general conveyance agreement as disclosed in note 20(a).

The net investment in lease represents the minimum lease payments over the term of the lease plus purchase options receivable. The net investment in lease consists of the following:

- AgraWest Investments Ltd. – 5-year lease term for the period from June 16, 2002 to June 15, 2007, $5 per year with a purchase option of $1,000,000.

## 12. Short-term notes payable

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Promissory notes payable to the Province of Prince Edward Island, with interest rates ranging from 2.24% to 4.8% | 13,743,916 | - |

The promissory notes are due on demand, are renewed every thirty days with the lender and are unsecured. The notes are to be converted to long-term notes payable subsequent to year-end at rates and terms to be determined.

## 13. Notes payable and long-term debt

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| 4% promissory note, due October 10, 2007, interest only payable annually commencing October 31, 2004 | 2,200,000 | - |
| 5.84% note payable, payable $37,870 semi-annually including principal and interest, maturing March 31, 2013 | 524,383 | 567,597 |
| 6.60% note payable, payable $893,465 annually including principal and interest, maturing March 31, 2012 | 5,418,848 | 5,921,495 |
| 4.4% note payable, payable $63,679 quarterly interest only, maturing December 31, 2008 | 5,789,000 | - |
| 4% promissory note, due November 28, 2008, with interest payable quarterly and principal payments due each November 30 of $1,250,000, beginning in 2005 | 6,211,000 | - |
| 6.62% Bank of Nova Scotia mortgage, repayable $40,333 monthly plus interest, maturing August 30, 2017 | 11,333,667 | 11,817,667 |
| 5.65% Bank of Nova Scotia loan, payable $18,106 monthly including principal and interest, maturing March 20, 2007 | 2,451,364 | 2,527,776 |
| ACOA non-interest bearing loan due February 1, 2006, repayable in annual instalments of $180,000 | 360,000 | 540,000 |
| | 34,288,262 | 21,374,535 |
| Less: Current portion | 1,146,438 | 1,286,274 |
| | 33,141,824 | 20,088,261 |

The 5.84% note payable, 4.4% note payable and the 6.60% note payable are issued to the Province of Prince Edward Island.

The two 4% promissory notes are payable to Prince Edward Island Century Fund 2000 Inc., a subsidiary of a provincial Crown corporation.

The notes payable and long-term debt are unsecured, except for the 6.62% Bank of Nova Scotia mortgage, which is secured by a full guarantee provided by the Province of Prince Edward Island.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as follows:

| | $ |
|---|---|
| Year ending March 31, 2005 | 1,146,438 |
| 2006 | 2,799,202 |
| 2007 | 2,484,732 |
| 2008 | 4,733,209 |
| 2009 | 9,584,823 |

## 14. Obligation under capital lease

**Atlantic Technology Centre Inc.**

The following is an analysis of the future minimum lease payments on a capital lease. The lease expires October 2007.

| | 2004 $ | 2003 $ |
|---|---|---|
| 4% lease, payable in annual instalments $105,200 in 2004, $182,400 in 2005, $326,400 in 2006 and $374,400 in 2007, payable on October 31 of each year | 988,400 | 1,044,400 |
| Less: amount representing interest | 108,400 | 144,400 |
| Balance of obligation | 880,000 | 900,000 |
| Less: current portion | 70,000 | 20,000 |
| | 810,000 | 880,000 |

The total annual principal payments over the term of the lease are as follows:

| | $ |
|---|---|
| Year ending March 31, 2005 | 70,000 |
| 2006 | 150,000 |
| 2007 | 300,000 |
| 2008 | 360,000 |
| | 880,000 |

## 15. Deferred credits

| | Cost $ | Accumulated amortization $ | 2004 Net $ | 2003 Net $ |
|---|---|---|---|---|
| **F.T.C. Enterprises Limited** | | | | |
| Building | 2,368,875 | 1,721,644 | 647,231 | 765,674 |
| Building soft costs | - | - | - | 99,167 |
| Building under construction | 941,446 | - | 941,446 | - |
| Pilot plant and laboratory equipment | 2,062,675 | 1,263,979 | 798,696 | 255,126 |
| Computer and audio visual equipment | 112,923 | 73,131 | 39,792 | 19,214 |
| Office furniture and equipment | 67,886 | 62,478 | 5,408 | 10,499 |
| | 5,553,805 | 3,121,232 | 2,432,573 | 1,149,680 |
| **Souris Food Park Development Corporation** | | | | |
| Federal | - | - | - | 2,402,476 |
| Provincial | - | - | - | 207,716 |
| | - | - | - | 2,610,192 |
| **Gateway Village Development Inc.** | | | | |
| Building – Phase I | 3,095,313 | 1,057,568 | 2,037,745 | 2,192,511 |
| Land improvements | 816,743 | 558,106 | 258,637 | 340,311 |
| Interpretative Centre | 1,072,001 | 1,072,001 | - | - |
| Retail fixtures | 73,735 | 73,735 | - | - |
| | 5,057,792 | 2,761,410 | 2,296,382 | 2,532,822 |
| **Environmental Industrial Services Inc.** | | | | |
| Bloomfield Mall | 879,812 | 65,598 | 814,214 | 857,946 |
| **Technology Prince Edward Island Inc.** | | | | |
| Building | 6,711,000 | 246,372 | 6,464,628 | 6,209,255 |
| Computer hardware | 1,424,927 | 699,576 | 725,351 | 1,139,018 |
| Computer software | 50,800 | 50,800 | - | 20,000 |
| Furniture and fixtures | 313,273 | 93,459 | 219,814 | 277,250 |
| | 8,500,000 | 1,090,207 | 7,409,793 | 7,645,523 |
| **Prince Edward Island Business Development Inc.** | | | | |
| Industrial sites | 7,836,094 | 5,588,972 | 2,247,122 | - |
| | 27,827,503 | 12,627,419 | 15,200,084 | 14,796,163 |

## 16. Contingent liabilities

a) The corporation is contingently liable under loan guarantees at March 31 as follows:

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| Loan guarantees | 12,052,126 | 7,359,869 |
| Provision for possible payment | 1,497,467 | 1,564,510 |

The provision for possible payment is included in the overall allowance for possible losses.

The corporation is also contingently liable under entrepreneur loan program guarantees of $1,680,841 (2003 – $1,634,487) for which a provision for possible losses of $168,084 (2003 – $200,000) has been included in accounts payable and accrued liabilities.

Included in the guarantees is a guarantee of an operating line of credit in the amount of $226,899 (2003 – $687,081) of a subsidiary, Island Product Holdings Inc.

Included in loan guarantees is $495,000 for an equity investment and $2,604,000 in guarantees for line of credit balances. Also included is $8,953,126 in guarantees for term loans which have a carrying value of $8,596,928 at March 31, 2004. The above guarantees have various expiry dates ranging from April 2004 to May 2023.

The guarantees are secured by various assets and proceeds from liquidation are expected to cover the remaining amount of the guarantees.

b) F.T.C. Enterprises Limited has guaranteed loans totalling $25,000 of one of the private corporations in which it has invested.

c) A letter of claim has been filed against Prince Edward Island Business Development Inc. seeking unspecified damages. Management believes the claim is completely without foundation, and that the liability, if any, is unlikely at this time, and accordingly, no provision has been recorded in the accounts for future possible losses.

## 17. Commitments

a) F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the land upon which the corporation constructed its facilities. The lease cost is $1 per year and is renewable for a further term of twenty-five years for the same annual consideration.

b) The minimum annual lease payments required by Atlantic Technology Centre Inc. over the next five years under an operating lease for network management services and technological equipment expiring July 2007 are as follows:

| | $ |
|---|---|
| Year ending March 31, 2005 | 120,000 |
| 2006 | 120,000 |
| 2007 | 120,000 |
| 2008 | 40,000 |

c) Loans approved by Prince Edward Island Business Development Inc. but not disbursed at March 31, 2004 total $22,596,492.

## 18. Operating agreements

Environmental Industrial Services Inc. has agreements with McCain Foods Limited, Irving Pulp & Paper Limited and Small Fry Snack Foods Inc. to operate wastewater treatment facilities to extend to December 2000, 2001 and 2005, respectively, and stipulate that the companies shall pay Environmental Industrial Services Inc. a user fee equal to the operating costs of the facilities excluding interest and amortization charges. The companies pay these operating costs directly and accordingly a user fee has not been charged by Environmental Industrial Services Inc. The leases with McCain Foods Limited and Irving Pulp & Paper Limited have the option to be extended an additional 10 years at the expiration of the lease term at the option of the lessee.

Environmental Industrial Services Inc. is responsible for operating the Brudenell and Crowbush Water and Sewer Utilities on behalf of the Province of Prince Edward Island. Environmental Industrial Services Inc. pays the operating costs of the Utility and recovers these costs from the users of the utility on a pro-rata basis based on usage.

During the year, the company recovered $5,901 (2003 – $6,294) in costs from related parties, Tourism PEI and Golf Links Prince Edward Island Inc. Tourism PEI is a provincial Crown corporation and Golf Links Prince Edward Island Inc. is a subsidiary of Tourism PEI.

## 19. Related party transactions

### Balance sheet

Accounts receivable

Included in accounts receivable is $249,431 (2003 – $52,337) due from the Province of Prince Edward Island and $85,201 (2003 – $18,331) due from related companies.

Accrued interest receivable

Included in accrued interest receivable is $13,675 (2003 – nil) due from a subsidiary of a provincial Crown corporation.

Funds held in trust

The funds held in trust are due to Island Investment Development Inc., a provincial Crown corporation.

Property and equipment

Included in the cost of the building of Technology Prince Edward Island Inc. is nil (2003 – $44,681) in capitalized interest paid to the Department of Provincial Treasury of Prince Edward Island.

The Province of P.E.I. transferred land to Gateway Village Development Inc. in 1997. In accordance with the terms of the transfer, the exchange and carrying amounts of the land was established as $1.

The Province of Prince Edward Island conveys land to the company periodically to be used for development purposes. The exchange and carrying amounts of land when transferred into the company is nil.

Accounts payable

Included in accounts payable and accrued liabilities is $21,077 (2003 – $58,904) payable to the Province of Prince Edward Island, and $84,306 (2003 – nil) due to related companies.

Deferred credits

During the year, Technology Prince Edward Island Inc. received, by way of grants from Prince Edward Island Business Development Inc., and paid by way of a grant to its wholly-owned subsidiary, Atlantic Technology Centre Inc., $500,000 (2003 – $2,500,000) from the Province of Prince Edward Island in special project funding for the acquisition of property and equipment. These grants have been recorded as deferred credits in the consolidated financial statements. These amounts have not been eliminated on consolidation.

During the year, Environmental Industrial Services Inc. received grants of $17,692 (2003 – $172,010) and F.T.C. Enterprises Limited received grants of $221,192 (2003 – $178,258) from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as deferred credits and included in program expenditures for the year. These amounts have not been eliminated on consolidation.

Contributed surplus

Gateway Village Development Inc. and F.T.C. Enterprises Limited have received a cumulative total of $1,786,248 in funds from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

**Statement of revenue and expenditures**

Revenue

Included in project revenues is a grant of nil (2003 – $110,000) paid to Solanum – PEI, A Canadian Potato Systems Company Inc. from the Province of Prince Edward Island.

Included in project revenues is a grant of nil (2003 – $10,000) paid to F.T.C. Enterprises Limited from the Province of Prince Edward Island.

Management fees

During the year, management fees of $150,000 (2003 – $150,000) were received from Island Investment Development Inc. and recorded as a reduction in operating expenditures. In addition, management fees of nil (2003 – $30,816) were received from Innovative Solutions Agency (P.E.I.) Inc., a provincial Crown corporation, and recorded as a reduction in operating expenditures.

During the year, management fees of nil (2003 – $2,600) were received from Island Investment Development Inc., a provincial Crown corporation, and have been recorded as miscellaneous revenue.

Interest expense

Included in expenditures is $1,235,936 (2003 – $1,285,621) in interest paid to the Province of Prince Edward Island.

Included in expenditures is $126,287 (2003 – nil) in interest paid to a subsidiary of a provincial Crown corporation.

Other

The company provides office premises to Tourism PEI for nil consideration.

The company rents land for the annual amount of $2,120 plus applicable taxes from Slemon Park Corporation under a fifty-year lease agreement, effective for the term September 28, 2001 to September 28, 2051.

The above transactions were recorded in the normal course of operations and measured on the same terms as transactions with unrelated parties.

## 20. Other

a) Effective December 20, 2003, Prince Edward Island Business Development Inc. entered into a general conveyance, assignment, and assumption of liabilities agreement with a subsidiary, Souris Food Park Development Corporation. Under this agreement, Souris Food Park Development Corporation transferred all of its assets and the benefit of all contracts to Prince Edward Island Business Development Inc. Prince Edward Island Business Development Inc. agreed to assume and discharge all liabilities of Souris Food Park Development Corporation, and to assume all expenses in connection with the proposed wind-up and dissolution of Souris Food Park Development Corporation.

The net assets and liabilities transferred were as follows:

| | $ |
|---|---|
| Cash | 728 |
| Property holdings – net | 2,610,192 |
| Net investment in lease | 1,000,300 |
| Accounts payable and accrued liabilities | (2,000) |
| Long-term debt | (540,000) |
| Deferred credits – net | (2,610,192) |
| Net loss to December 20, 2003 | 4,970 |
| Net assets transferred | 463,998 |

The net assets transferred were recorded by Prince Edward Island Business Development Inc. as a reduction of the intercompany receivable from Souris Food Park Development Corporation in the amount of $463,898and the elimination of the investment in subsidiary in the amount of $100.

b) Effective March 31, 2003, Innovative Solutions Agency (PEI) Inc. (ISA), a provincial Crown corporation, entered into a general conveyance, assignment, and assumption of liabilities agreement with Technology Prince Edward Island Inc. Under this agreement, ISA transferred all of its assets and the benefit of all contracts to Technology Prince Edward Island Inc. in exchange for the sum of $1, plus an assumption of all obligations of the company and an agreement by Technology Prince Edward Island Inc. to assume and discharge all liabilities of ISA, and to assume all expenses in connection with the proposed wind-up and dissolution of ISA.

The assets and liabilities transferred were as follows:

| | $ |
|---|---|
| Cash | 257,134 |
| Accounts receivable | 6,022 |
| Other asset | 1 |
| Property and equipment | 1 |
| Accounts payable and accrued liabilities | (63,735) |
| Net assets transferred | 199,423 |

The net assets transferred has been recorded as a credit to contributed surplus by Technology Prince Edward Island Inc. at March 31, 2003.

## 21. Contributed surplus

During the current year, the shareholders and directors of Gateway Village Development Inc. approved a transfer of $225,953 from contributed surplus to offset the accumulated operations deficit of the company as at March 31, 2003.

Effective March 31, 2003, the Board of Technology Prince Edward Island Inc. approved the transfer of the contributed surplus balance of $199,423 to reduce the balance of the deficit in Technology Prince Edward Island Inc. at the end of the fiscal year.

## 22. Comparative figures

Certain comparative figures presented for the 2003 fiscal year have been restated to conform with the financial statement presentation adopted for the current year.

# Prince Edward Island Business Development Inc.

Schedule of Retail Operations

**For the year ended March 31, 2004** **Schedule**

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| **Revenue** | | |
| Island Store | 420,072 | 537,235 |
| Consignment sales – net | 5,921 | 8,635 |
| | 425,993 | 545,870 |
| **Cost of goods sold** | | |
| Island Store | 219,502 | 275,943 |
| **Gross margin** | 206,491 | 269,927 |
| **Expenditures** | | |
| Salaries and benefits | 60,924 | 66,258 |
| Occupancy charge | 41,967 | 53,723 |
| Bank charges and interest | 5,455 | 7,168 |
| Travel and training | 104 | 3,820 |
| Packaging | 6,418 | 3,478 |
| Advertising and promotion | 3,954 | 2,907 |
| Electricity | 2,796 | 2,870 |
| Telecommunications | 1,882 | 2,054 |
| Administration | 1,484 | 1,794 |
| Maintenance and cleaning | 1,406 | 1,505 |
| Product development | - | 277 |
| Exchange gain | (739) | (1,393) |
| | 125,651 | 144,461 |